

PARK COUNTY (SR0234)
GASB 68 NOTES TO THE FINANCIAL STATEMENTS
SHERIFFS' RETIREMENT SYSTEM
FOR FISCAL YEAR ENDED

JUNE 30, 2015 (measurement date)
JUNE 30, 2016 (reporting date)

Pension Amount Totals - 74

GASB Statement 68, paragraph 74 requires that when employees are provided benefits through more than one pension system, whether provided through cost-sharing, single-employer or agent pension plans, the employer must combine the amounts reported as a total or aggregate for all pensions.

Net Pension Liability - 80a, 80b, 80c, 80d, 80e, 80f

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Sheriffs' Retirement System (SRS). Statement 68, which became effective June 30, 2015, includes requirements for employers to record and report their proportionate share of the collective Net Pension Liability (NPL), Pension Expense, and Deferred Inflows and Deferred Outflows of resources associated with pensions.

The Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to the measurement date of June 30, 2015. For most employers, their June 30, 2016 reporting will use the 2016 reporting values presented in these notes.

As of reporting date	<u>Net Pension Liability as of 6/30/2016</u>	<u>Net Pension Liability as of 6/30/2015</u>	<u>Percent of Collective NPL as of 6/30/2016</u>	<u>Percent of Collective NPL as of 6/30/2015</u>	<u>Change in Percent of Collective NPL</u>
Employer Proportionate Share	\$ 1,549,455.41	\$ 660,063.97	1.607338%	1.586043%	0.021295%
Total	\$ 1,549,455.41	\$ 660,063.97	1.607338%	1.586043%	0.021295%

The Table above displays the employer proportionate share of the NPL and the employer's proportion of NPL for June 30, 2015 and 2016. The employer's proportion of the NPL was based on the employer's contributions received by the SRS during the measurement period July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of SRS' participating employers. As of the employer's reporting date the employer recorded a liability of \$xxx,xxx and the employer's proportionate share was x.xxxxxx percent.

Changes in actuarial assumptions and methods: There were no changes in demographic assumptions that affected the measurement of the TPL. There was an adjustment in the discount rate during the measurement period.

Changes in benefit terms: There were no changes in benefit terms since the previous measurement date.

Changes in proportionate share: There were no changes between the measurement date of the collective NPL and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

Pension Expense – 80g, 80j

As of reporting date	<u>Pension Expense as of 6/30/2016</u>	<u>Pension Expense as of 6/30/2015</u>
Employer's Proportionate Share for SRS	\$ 118,522.41	\$ 36,877.54
Total	\$ 118,522.41	\$ 36,877.54

At June 30, 2016, the employer recognized its proportionate share of the SRS' Pension Expense. *(Two years of pension expense are documented in the above schedule but are not necessary for the employer's disclosures.)*

Recognition of Deferred Inflows and Outflows – 57, 80h, 80i

At June 30, 2016, the employer reported its proportionate share of SRS' deferred outflows of resources and deferred inflows of resources related to SRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Actual vs. Expected Experience	\$ 0.00	\$ 2,611.84
Changes in Assumptions	\$ 576,742.70	\$ 568,794.04
Actual vs. Expected Investment Earnings	\$ 0.00	\$ 106,119.19
Changes in Proportion Share	\$ 18,175.31	\$ 0.00
Employer contributions subsequent to the measurement date - # FY 2016 Contributions	\$ 116,114.90	
Total	\$ 711,032.91	\$ 677,525.07

#Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL beginning in the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

For the Reporting Year ended June 30:	Amount of deferred outflows and deferred inflows recognized in future years as an increase or (decrease) to Pension Expense
2017	\$ (40,253.45)
2018	\$ (40,253.45)
2019	\$ (40,253.42)
2020	\$ 33,450.85
2021	\$ 4,702.40
Thereafter	\$ 0.00

Plan Description – 76a

The Sheriffs' Retirement System (SRS), administered by the Montana Public Employee Retirement Administration (MPERA), is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries.

Summary of Benefits – 76b

Eligibility for benefit

20 years of membership service, regardless of age.

Other Retirement Option

Age 50, 5 years of membership service. This benefit is the actuarial equivalent of the service retirement benefit.

Vesting

5 years of membership service

Member's highest average compensation (HAC)

Hired prior to July 1, 2011 - highest average compensation during any consecutive 36 months;

Hired on or after July 1, 2011 – highest average compensation during any consecutive 60 months.

Compensation Cap

Hired on or after July 1, 2013 – 110% annual cap on compensation considered as a part of a member's highest average compensation.

Monthly benefit formula

2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage (provided below) each January, inclusive of all other adjustments to the member's benefit.

- 3% for members hired **prior to** July 1, 2007
- 1.5% for members hired **on or after** July 1, 2007

Overview of Contributions – 76c

Rates are specified by state law for periodic member and employer contributions and are a percentage of the member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. The State legislature has the authority to establish and amend contribution rates to the plan. Member and employer contribution rates are shown in the table below.

Fiscal Year	Member	Employer
2010-2016	9.245%	10.115%
2008-2009	9.245%	9.825%
1998-2007	9.245%	9.535%

Stand-Alone Statements – 76d

The SRS financial information is reported in the Public Employees' Retirement Board's *Comprehensive Annual Financial Report* for the fiscal year ended. It is available from the PERB at 100 North Park, PO Box 200131, Helena MT 59620-0131, (406) 444-3154.

CAFR information including our stand alone financial statements can be found on our web site at

<http://mpera.mt.gov/annualReports.shtml>

The latest actuarial valuation and experience study can be found at our website at

<http://mpera.mt.gov/actuarialvaluations.shtml>

Actuarial Assumptions – 77

The TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the TPL to June 30, 2015. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six year period July 1, 2003 to June 30, 2009. There were several significant assumptions and other inputs used to measure the TPL. Among those assumptions were the following:

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|--|-------|
| • Investment Return (net of admin expense) | 7.75% |
| • Admin Expense as % of Payroll | 0.17% |
| • General Wage Growth* | 4.00% |

- *includes Inflation at 3.00%
- Merit Increases 0% to 7.3%
- Postretirement Benefit Increases

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, **inclusive** of other adjustments to the member's benefit.

For members hired **prior to** July 1, 2007 3.00%

For members hired **on or after** July 1, 2007 1.50%
- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries are based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.

Discount Rate - 78a, 78b, 78d, 78e

The discount rate used to measure the TPL was 6.86%, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members and employers will be made based on the Board's funding policy, which establishes the contractually required rates under the Montana Code Annotated. Based on those assumptions, the System's fiduciary net position was projected to not be adequate to make all the projected future benefit payments of current plan members after 2057. Therefore, the portion of future projected benefit payments after 2057 are discounted at the municipal bond index rate.

Target Allocations - 78c, 78f

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	-0.25%
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period of fiscal years 2003 through 2009, is outlined in a report dated June 2010 and is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption. These factors include rates of return adopted by similar public sector systems, as well as the utilization of a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by an investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term

assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table above are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Sensitivity Analysis – 78g

As of reporting date	1.0% Decrease (5.86%)	Current Discount Rate (6.86%)	1.0% Increase (7.86%)
Employer's Net Pension Liability	\$ 2,488,321.80	\$ 1,549,455.41	\$ 779,812.33

The above table presents the NPL calculated using the discount rate of 6.86%, as well as what the NPL would be if it were calculated using a discount rate that is 1.00% lower or 1.00% higher than the current rate.

Summary of Significant Accounting Policies – 79

The Montana Public Employee Retirement Administration (MPERA) prepares its financial statements using the accrual basis of accounting. For the purposes of measuring the NPL; deferred inflows of resources and deferred outflows of resources related to pensions; Pension Expense; information about the fiduciary net position; and, additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

PARK COUNTY (SR0234)
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
For the Last Ten Fiscal Years*
81a1

	2016	2015
Employer's proportion of the Net Pension Liability as a percentage	1.607338%	1.586043%
Employer's proportionate share of the Net Pension Liability as an amount	\$ 1,549,455.41	\$ 660,063.97
Total	\$ 1,549,455.41	\$ 660,063.97
Employer's Pensionable Payroll	\$ 1,093,721.19	\$ 1,025,736.07
Employer's proportionate share of the Net Pension Liability as a percentage of its Pensionable Payroll	141.668%	64.350%
Plan fiduciary net position as a percentage of the Total Pension Liability	75.4%	87.2%

**The amounts presented above for each fiscal year were determined as of June 30th, the measurement date.
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

PARK COUNTY (SR0234)
Required Supplementary Information
Schedule of Contributions
For the Last Ten Fiscal Years*
81b

	2016	2015
Contractually Required Contributions	\$ 116,114.90	\$ 110,945.64
Contributions in Relation to the Contractually Required Contributions	\$ 116,114.90	\$ 110,945.64
Contribution Deficiency (Excess)	\$ 0.00	\$ 0.00
Employer's Pensionable Payroll	\$ 1,120,308.89	\$ 1,093,721.19
Contributions as a percentage of Pensionable Payroll	10.365%	10.144%

**The amounts presented above for each fiscal year were determined as of June 30th, the employer's most recent fiscal year end. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

PARK COUNTY (SR0234)
Notes to Required Supplementary Information
for the Year ended June 30, 2016
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Changes of Benefit Terms

The following changes to the plan provision were made as identified:

2013 Legislative Changes:

Working Retirees - House Bill 95 - PERS, SRS, and FURS, effective July 1, 2013

- Law requires employer contributions on working retiree compensation.
- Member contributions are not required.
- Working retiree limitations are not impacted. SRS retirees may still work up to 480 hours a year, without returning to active service.

Highest Average Compensation (HAC) Cap - House Bill 97, effective July 1, 2013

- All SRS members hired on or after July 1, 2013 are subject to a 110% annual cap on compensation considered as part of a member's highest or final average compensation.
- All bonuses paid to SRS members on or after July 1, 2013 will not be treated as compensation for retirement purposes.

2015 Legislative Changes: none

Changes in Actuarial Assumptions and Methods**Method and assumptions used in calculations of actuarially determined contributions**

The following change to the actuarial assumptions was adopted in 2015:

SRS Discount rate - Used to measure the TPL	6.86 percent, which is a blend of the assumed long-term expected rate of return of 7.75% on System's investments and a municipal bond index rate of 3.80%.
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The following addition to the actuarial assumptions was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.17%
SRS Discount rate - Used to measure the TPL	7.75 percent, which is the assumed long-term expected rate of return on System's investments

The following change to the actuarial assumptions was adopted in 2013:

SRS Discount rate - Used to measure the TPL	6.68 percent, which is a blend of the assumed long-term expected rate of return of 7.82% on System's investments and a municipal bond index rate of 4.27%.
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The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75 percent, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00 percent, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open